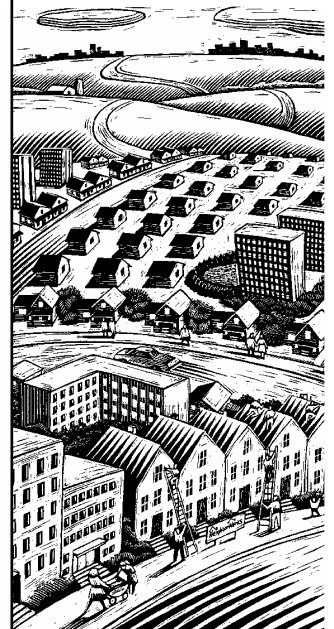


# **Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties**

**A Case Study of Cedar Road Apartments in  
Vista, California**

**October 2005**



# **Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties**

**Cedar Road Apartments**

**In Vista, CA**

**October 2005**

**Produced by  
Judy Weber  
VIVA Consulting**

**This work was funded by a Ford Foundation Grant from their “Flexible Capital” Grant Funding Programs for the Development or Preservation of Mixed-Income/Mixed-Race (MI/MR) Developments and Practical MI/MR Research Assessments. The grant was awarded to NeighborWorks® America who partnered with Abt Associates and Viva Consulting to conduct the study.**

The opinions, claims and all other statements expressed in this report represent solely the author’s own views and do not necessarily reflect those of NeighborWorks® America. NeighborWorks® America accepts no legal liability or responsibility for any claims made or opinions expressed therein.

## Site at a Glance: Cedar Road Apartments



Property	Residents	Neighborhood
<p>40 units, 2 to 4 BR units</p> <p>10 transitional housing/LIHTC units @ 30% AMI 2 LIHTC units @ 30% AMI 28 LIHTC units @ 50% AMI</p> <p>Average Unit Size = 2.75 BRs</p> <p>Nine 2-story garden and townhouse style buildings clustered around a landscaped courtyard with 2 tot lots and community vegetable garden.</p> <p>Built in 1996</p> <p>Owned by: Cedar Road Housing Associates</p> <p>Sponsored by: Community Housing Works</p> <p>Managed by The John Stewart Company</p> <p>-----</p> <p>Annual Moveout Rate = 17%</p>	<p>179 residents</p> <p>2004 Gross Household Median Income: \$24,960 (40% of AMI)</p> <p>&lt; 30% family-size adjusted AMI: 38% 30% to 50% FSA-AMI: 44% &gt; 50% of FSA-AMI: 18%</p> <p>58% Hispanic      35% White 7% Black</p> <p>98% of households have children 64% of all residents are children</p> <p>86% of households have one or more employed household members.</p> <p>25% of the apartments are transitional units for the formerly homeless.</p>	<p>5,547 residents (census tract)</p> <p>2004 Tract Median Income: \$56,060</p> <p>17% poverty rate</p> <p>50% Hispanic      36% White 6% Black      6% Asian</p> <ul style="list-style-type: none"> <li>• Modest neighborhood of single-family homes, conventional rental complexes in fair condition and a commercial strip district on outskirts of town of 94,000.</li> <li>• Across the street from well regarded public elementary school.</li> <li>• Lots of entry-level manufacturing and service jobs at nearby big box retailers and the Vista Business Park that contains more than 650 businesses employing 18,000 people.</li> </ul>

### Keys to Success

- A year of meetings and design review brought community buy-in as well as critical City approvals and funding.
- Sponsor's previous experience with transitional housing resulted in assembling a collaborative support team for formerly homeless households and a transitional rent structure that maximized opportunities for individual and property-wide success.
- Thoughtful unit design tailored to large families with strong curb appeal and inviting communal spaces.
- Scarce affordable, quality alternatives create strong and ongoing demand for all units.
- Desirable location for target market: offers good elementary school, nearby shopping, job opportunities and a neighborhood accustomed to racial diversity.
- Strong asset management and low debt obligations have kept site operations focused and able to generate cash flow during frequent management company and site staff changes.

## **Section 1: What Type of Mixed-Income Property is this and Why Does it Work?**

Cedar Road is a 40-unit mixed income, mixed-race property in Vista, California. Vista is a fast growing city 35 miles north of San Diego. Its population grew 29 percent between 1990 and 2003 and almost all of that growth has been in the Hispanic population that now represents 41 percent of the city's population.

Cedar Road is divided between very-low (30 percent) and low-income (70 percent) households. Most of the very low-income households are part of a transitional housing program for homeless families that uses 10 of the 40 units.

Cedar Road was completed in 1996 as the first phase of a two-phase project. The second phase, Nettleton Road, contains 28 units and was completed in 1999.<sup>1</sup> Although this study is about Cedar Road, the two phases are operated as one property and together encircle a central courtyard. The properties are located in a modest residential neighborhood of small single-family homes and conventional apartment complexes that are in fair condition. It is directly across from one of the best elementary schools in the City and is close to a busy thoroughfare of strip malls. It is the most attractive complex in the area.

### **a. What Mixed Income/Mixed Race Model(s) Does Cedar Road Typify?**

1. Cedar Road is an example of a model that was created through moderate public intervention/funding efforts. Funding for the development came from the sale of tax credits, HOME funds, a HUD Supportive Housing Program grant (for the transitional housing units), the City of Vista, a Federal Home Loan Bank Grant, and a conventional loan. The funding was all for the development of Cedar Road. It was not part of a larger neighborhood revitalization effort.
2. Cedar Road is located in a "hot real estate market" where the median price of a single-family home increased 21 percent from \$269,900 to \$365,000 between 2002 and 2003 alone.<sup>2</sup> Most of the nearby conventional rental options offer only one- and two-bedroom apartments which are not only too small for the families Cedar/Nettleton attracts, but are older, more expensive and generally less well maintained. Increasingly, homeownership in Vista is becoming out of reach for existing residents even though their median income has risen. Despite the hot real estate market, the developers of Cedar Road did not designate any of the units for relatively high-income renters. The objective of the development was to mix transitional housing families with affordable housing for somewhat higher, but still low-income families.

---

<sup>1</sup> Nettleton Road has 10 transitional housing units, 4 units for households below 30 percent of AMI, and 14 units for households with income up to 50 percent of AMI.

<sup>2</sup> *North County Times* article of May 1, 2004 entitled "Vista: Its Hills Hide Treasures."

**b. Why is Cedar Road a Successful Mixed Income/Mixed Race Property?**

1. *Thoughtful design and unit mix tailored to target market is core strategy.*  
Cedar/Nettleton was designed to demonstrate that it is possible to create an attractive, functional and desirable community for families in a dense, multifamily setting. Fifteen two-story buildings (9 in Cedar and 6 in Nettleton) encircle a landscaped courtyard with tot lots, sittings areas, laundry facilities, and a community vegetable garden. All units have separate entrances to either a townhouse or single level apartment. Units are designed with families in mind, with an open floor plan of kitchen/dining/living areas conducive to large family gatherings. Each unit has a patio or a landing that allows residents to personalize their exterior space with plants and flowers. Ground level bathrooms are located off the kitchens. Target families are likely to have at least one family member working in a manual trade so a bathroom off the kitchen was considered highly desirable. It allows the worker to “wash up” before entering the rest of the home.
2. *The City was supportive.* At the time of development, homelessness was an acute problem for Vista (and surrounding communities, as well). Vista’s planning department was staffed with young, progressive professionals who embraced the income and transitional housing mix as well as the design that was proposed. City approval was necessary for the project to go forward and the City not only gave approval but also provided an important \$396,959 deferred payment loan.
3. *The developer’s previous experience with transitional housing was key in constructing elements necessary for these households to integrate well with the rest of the Cedar/Nettleton development.* The developer was experienced in creating transitional housing, understood its pitfalls and was able to articulate its goals for the program and the property. First, the developer formed a partnership with North County Lifeline to provide case management services focused on guiding transitional families to greater self-sufficiency. Second, it went through two property management companies, as well as several regional and site staff, to find a collaborative property management partner able to provide the day-to-day tenant selection, lease enforcement and maintenance that kept the transitional units full and their tenants fulfilling their lease requirements. Third, the developer wanted successful households to be able to stay at Cedar Road by moving out of a transitional unit into an affordable one, within a community where they were accepted and were successful. Too many participants in transitional housing programs fail when they have to “move on.” Ultimately, the developer wanted the property to operate seamlessly for all residents and that there be little attention drawn, for any reason, to any household based on their income. The manager and asset manager both report that this is the case. There is a general acceptance among residents that family circumstances have their ups and downs and little judgment is placed on income sources.
4. *Quality, affordable alternatives are scarce and affordable housing is in high demand.* Two bedroom rentals currently average \$1,100 per month in Vista.

Cedar/Nettleton's highest two-bedroom rent is a third less at \$735. The high demand is reflected in the relatively low turnover and long waiting list for applicants. The typical turnover rate is 17 percent per year.<sup>3</sup> Half of the turnovers are attributable to the transitional units of which 30 percent transfer into an affordable unit at the property and 70 percent move on. The other turnovers are in the higher income households whose next move is to homeownership, usually outside Vista because housing costs have risen too high. Vacancies are filled from a waiting list of 127 that is currently closed.

5. *Convenient location, good schools, nearby employment.* The property is a wonderful location for families. It is directly across the street from one of the City's best elementary schools, is less than a mile from shopping, and is close to major City thoroughfares and interstate highways. San Diego County's unemployment rate was 5 percent in April 2005 and has held steady for some time. The Vista Business Park, founded in 1987, contains more than 650 businesses and employs more than 18,000 people. In addition, big-box retailers like Costco, Wal-mart, and Lowe's are also nearby. Both have a significant number of service or entry-level manufacturing positions. And despite the spate of previous gang activity, Vista boasts one of the lowest crime rates in North County.
6. *The owner is motivated to produce a positive bottom line.* Partnership (or asset) management fees can be paid to the general partner (the developer/sponsor) only from cash flow. As a consequence the developer/sponsor pays close attention to maximizing revenues and minimizing expenses without compromising its high property standards. Replacement and operating reserves are funded, rents are increased at greater rates than the initial proforma, and the bottom line is consistently positive.
7. *Strong asset management has been critical in stabilizing operations through several changes in property management staff.* Cedar/Nettleton has had two property management companies. The most recent property manager, The John Stewart Company, began in October 2001 after its predecessor went out of business. The owner described them as being "the best at understanding our mission and is a real team player." However, since John Stewart started at Cedar/Nettleton, it has had three regional and four site managers. The current team started a year ago and the current site manager has been successful in filling the transitional units in a timely fashion with appropriate households. "She's improved everything!" While things are working very well now, the property continued to meet its operating benchmarks during the property management transition periods through the vigilance of its asset management efforts.

**c. What Hypotheses about Successful Mixed Income Housing Does This Property Support?**

---

<sup>3</sup> Turnover in the past year was much higher, 30 percent. The owner attributed this to the hiring of a new property manager who more strictly enforced the lease requirement.

Cedar Road is a successful example of the following hypotheses about mixed-income housing:

1. *Mixed-income housing cannot be successful unless the fundamentals of real estate development are followed.* Cedar Road was built in a neighborhood with many desirable amenities and funded so that it could remain affordable while looking like a market rate development. With low land acquisition costs, a HUD SHP grant, financial contributions from the City and HOME funds, low income housing tax credit proceeds, and only 28 percent of its permanent funding sources coming from “hard debt.” Hence, the property can charge an affordable rent, have sufficient operating funds, and service its debt responsibly. In addition, both replacement and operating reserves (\$2,287 and \$4,181 per unit, respectively) are funded regularly at rates that will make routine replacements as well as periodic capital upgrades achievable. Net operating income (NOI) has tracked well with the initial projections based on both revenues and expenses running higher than projected. Its location near many amenities, jobs and a major thoroughfare in a racially and economically diverse area was also sound for MI/MR housing.
2. *Mixed-income housing in distressed areas requires a great deal of effort on the part of the developer or other champions to create a product and an environment capable of attracting market rents and buyers.* While Cedar/Nettleton’s neighborhood does not appear “distressed” today, 17 percent of the neighborhood is below the poverty line, 56 percent live in conventional rental housing where they routinely pay more than 50 percent of their income for rent and gang activity was an unpleasant reality until recently. It was the developer’s express goal to create an environment for families that was a distinct alternative to the small, expensive, nearby conventional apartment complexes that were overcrowded, had no outside play space for children and did not promote community cohesion. The developer spent a year conducting neighborhood meetings (“we probably met them to death”) so that by the time approvals were sought from the City Council there was no opposition (new properties in California require City approval). In fact, the primary complaints came from so-called slum landlords who did not want the competition of a new development.
3. *Developing and maintaining upward mobility programs usually require a substantial staff separate from the property management staff. Long-term success at upward mobility requires ongoing resident participation to see to it that the programs, effort and culture being built are on course.* There is a substantial staff effort beyond that of the property manager to make Cedar/Nettleton successful. One of the greatest challenges has been integrating the interests and perspectives of the property manager, the resident services staff who direct a Learning Communities model that provides computer learning, a homework center and after school activities and the case managers for the transitional households. Their efforts are coordinated through the sponsor’s asset

manager who reinforces the owner's mission to "move people along" to all the team members. This has not always been easy and, it is only recently that Cedar/Nettleton has been demonstrating its full potential on all fronts.

4. *Community building in mixed-income settings requires ongoing efforts by management and residents to limit conflict and build a workable community among people of different backgrounds.* The property is located in a neighborhood accustomed to racial and cultural diversity. But the non-profit was also proactive in creating a site design that encourages resident interaction in a shared courtyard and constructed community meeting and learning space conducive to regular resident activities. The site manager reports that participation is even across racial and ethnic groups in proportion to their numbers within the development.
5. *Mixed-income housing succeeds when residents experience upward mobility, their rent burden decreases and they don't have to move, unless by choice.* At Cedar Road, where the local job market is strong and 86 percent of the households are employed, the rent burden as a percentage of income has lessened over time for many households. This results in greater ease in paying rent on time, little eviction activity and few collection issues (tenant accounts receivable were 1.3 percent in 2004). All these events have a positive effect on the bottom line. It also contributes to a more stable community where people know their neighbors, look out for each other's interests and take pride in calling their apartment community home.

## Section 2: History of the Property

### a. Development History

The impetus for the development was the availability of affordable land in a neighborhood that was a good location to realize the sponsor's desire to incorporate transitional housing within an affordable family development. The original concept was for Cedar/Nettleton to be built in two phases (but look like one development) and for the non-transitional units to be farm workers housing with financing through the Rural Housing Service housing 514 loan/516 grant programs or the Section 515 program. However, financing was more readily available through the low-income housing tax credit program (LIHTC). At the time, the State's LIHTC scoring criteria gave preference to developments with low and very low-income households as well as large unit sizes. Cedar Road's income mix and unit sizes not only aligned with the sponsor's mission, but also scored well. Funding for the transitional units came from HUD's Supportive Housing Program (SHP).

The sponsor was also experienced with transitional housing and knew that too often transitional households failed because the housing available after the transitional housing was still unaffordable. Therefore, transitional households are given preference for an



apartment within the development once their two-year transitional occupancy has expired.

As a result, Cedar Road has three income tiers: transitional housing renters (where residents pay 30 percent of their income for rent for up to two years before moving on); very low-income renters (below 50 percent of AMI), and low-income renters (50 to 80 percent of AMI). The families with income above 50 percent of AMI are families that have had income growth since they met the LIHTC eligibility criteria for having income below 50 percent of the median.

The City of Vista was more supportive than expected, in part because the planning staff was fairly progressive. Nearby landlords (about the only opposition to the project) were not well regarded and quality affordable family housing was scarce. Homelessness was a major problem in North County in the mid-nineties. Cedar Road offered an attractive response to these issues from a credible developer with a growing track record. Over a year was spent in meetings with the neighborhood and the community. These included a series of community design meetings held to develop project design concepts. The sponsor became an active leader in the neighborhood, working to create a Neighborhood Watch and other community-building efforts before construction even started. By the time the project was brought to the City Council for its necessary zoning and planning approvals, all went smoothly.

The project began in October 1995 and was completed in October 1996. Rent up was achieved quickly; in fact, a lottery was held because there were more eligible applicants than units.

## **b. Ownership and Management Team**

Cedar Road is owned by Cedar Road Housing Associates. The general partner is Community Housing Works (CHW), which was formerly Community Housing of North County (CHNC). The limited partner is the California Equity Fund.

CHW is the result of the 2002 merger that combines over 20 years of experience of two community organizations: San Diego Neighborhood Housing Services, founded by neighborhood activists in a City Heights garage, and Community Housing of North County, founded by interfaith leaders. CHW has developed 1,100 apartments in 23 affordable housing complexes, with a focus on housing families with children and immigrant populations. CHW houses and provides transitional housing to homeless children and adults, people with AIDS and disabilities. It trains and assists community leaders. It actively provides educational enrichment at its properties with after school programs, computer learning centers, and scholarships. It also assists in homeownership opportunities by providing down payment loans and offering classes for first-time homebuyers.

CHW maintains two offices – one in City Heights in San Diego and one in Escondido, in North County (a county the size of the state of Connecticut). CHW has 35 full time and

many part-time staff. Its properties have won numerous local and national design and planning awards, including two Fannie Mae Maxwell Awards for Excellence and three American Institute of Architects awards.

The John Stewart Company, one of California's largest multi-family managers of affordable housing, has managed cedar Road Apartments since October 2001. The previous property manager, Cuatro Properties, who had managed the property since the beginning, went out of business. There is a site-based management office within the community building and the resident manager has lived and worked at the property for one year.

### Section 3: Property, Residents, and Neighborhood

#### a. Basic Property Information

Cedar Road has 40 units in 9 two-story townhouse and garden style buildings clustered around a central courtyard it shares with the 28-unit Nettleton Road Apartments, the second phase of Cedar/Nettleton. There are 80 parking spaces for Cedar Road residents, half of which are covered. There is a detached laundry room in the courtyard with two tot lots for active recreation. There is also a community building which houses the management office, computer center/afterschool program and a day care center. The day care center is very affordable and has family income restrictions. It currently cares for 26 children, 5 of whom live at Cedar/Nettleton.

Unit building design, finishes, landscaping and capital improvements have all been intentionally geared to delivering and maintaining high quality housing. Most recently, gates and fencing were installed at the entrances to the parking lots. This improvement created more peace of mind for residents and was part of an overall staffing strategy to replace a full time courtesy patrol staff member with a part time maintenance technician.

*Table 1: Unit and Income Mix: Cedar Road*

Unit Composition	2 BR	3 BR	4 BR	TOTALS
< 30% AMI (transitional housing for homeless families)	9	1	0	10
< 30% AMI (Regular)	2	0	0	2
< 50% AMI	5	17	6	28
<b>TOTAL UNITS</b>	<b>16</b>	<b>18</b>	<b>6</b>	<b>40</b>

#### b. Resident Characteristics

Cedar Road closely mirrors its neighborhood, which is roughly half Hispanic and one-third white (see *Tables 2 and 3*). Residents come primarily from within Vista (43 percent), bordering Oceanside (26 percent) or nearby North County communities such as Escondido and San Marco.

Cedar Road is a racially and economically diverse community where 86 percent of all households have at least one member working (See Table 2.), often at a low-wage job (median household income of \$24,960). A single parent heads more than half of the households and they have 43 percent of the children. Only 12 percent of the households are headed by a married couple. There are a total of 179 residents in Cedar Road, or an average of more than 4 residents per apartment. Nearly two-thirds (64 percent) of all residents are children. The manager speaks proudly about the racial harmony at the property and notes that representation at all activities is proportional to the racial diversity at the property.

Although many Cedar/Nettleton families are eligible for the subsidized day care center on the property, only 25 percent of the participants are from the property. The site manager attributes this to the number of extended families at the property who provide child care for each other as well as the practice of household members working different work shifts to make childcare outside the home unnecessary.

*Table 2: Resident Characteristics*

<b>Resident Characteristics</b>	<b>Numbers</b>	<b>Percentage</b>
<ul style="list-style-type: none"> <li>• <b>Households</b> <ul style="list-style-type: none"> <li>○ Black</li> <li>○ White</li> <li>○ Hispanic</li> <li>○ Manager's unit</li> <li>○ TOTAL</li> </ul> </li> </ul>	3 15 24 <u>1</u> 43 <sup>4</sup>	7% 35% 56% <u>2%</u> 100%
• <b>Number of children under 18</b>	114	64%
• <b>Number of households with at least one working adult</b>	37	86%
• <b>Median household income</b>	\$24,960	
<ul style="list-style-type: none"> <li>• <b>Income relative to Family-Size Adjusted Median Income</b> <ul style="list-style-type: none"> <li>○ &lt; 30%</li> <li>○ 30 to 50%</li> <li>○ &gt; 50%</li> </ul> </li> </ul>	15 17 7	38% 44% 18%

### **c. Neighborhood Characteristics**

Cedar/Nettleton is located in an established, outlying west Vista neighborhood that is 42 percent renter-occupied. The neighborhood borders on Oceanside and Carlsbad. There are several multi-family apartment complexes close by that are both older and less well maintained than Cedar/Nettleton. Parking on the perimeter of one side of the property is

<sup>4</sup> The number of households is higher than the number of units because some of the transitional units are designed to be occupied by two unrelated households sharing a common kitchen.

across from a fenced salvage yard. The neighborhood's median income (\$56,060) is 90 percent of the median income for the metropolitan area. A well-regarded elementary school is directly across the street. The single-family homes are modest, well kept and have an average age of 26 years. A busy highway with numerous strip malls, restaurants, grocery and convenience stores abuts this quiet neighborhood. A hospital, churches, banks and access to major highways are also nearby.

*Table 3: Summary Neighborhood (Census Tract) Information*

Characteristic	Number
<b><i>Neighborhood Population</i></b>	
Number of Households	1,344
Number of Residents	5,547
<b><i>Neighborhood Income Levels</i></b>	
2004 HUD Estimated Metropolitan-Area Median Family Income	\$62,400
2004 Est. Tract Median Family Income	\$56,060
Tract Median Family Income as % of Metro Area	90%
% Below Poverty Line	17%
<b><i>Race/Ethnicity</i></b>	
% Black	6%
% Hispanic	50%
% White (non-Hispanic)	36%
% Asian	6%
% Other race	3%
<b><i>Neighborhood Housing</i></b>	
Total Housing Units	1,371
Median Age of Housing Stock (years)	26 years
% owner occupied	56%
% renter occupied	42%
% vacant	2%

Cedar/Nettleton closely resembles the split between whites and minorities (predominantly Hispanic) in its neighborhood although it has no Asian households. Overall, the share of minorities in the neighborhood and the property is somewhat higher than the City (see *Table 4*).

Table 4: *Racial Mix at Parkview Terrace and Census Tract*

<b>Race</b>	<b>Cedar Road: 2003 Households</b>	<b>Cedar Road: 2005 Households</b>	<b>Census Tract: 2000 Population</b>	<b>Vista 2004 Population: Chamber of Commerce</b>
Hispanic	61%	56%	50%	44%
White	24%	35%	36%	45%
Black	10%	7%	6%	4%
Asian	2.5%	0%	6%	4%
Other	2.5%	2%	3%	3%

## Section 4: Initial Stabilization of Occupancy

### a. Quality Design Creates Pride and Community

CHW's philosophy is "Community and pride are created through design." They have long-standing relationships with a small number of architects and have refined their design criteria over time. A Latin-American architect from San Diego was selected in part because Cedar Road was originally conceived as farm worker housing and he was considered sensitive to their living customs and preferences.

The Executive Director at the time Cedar Road was developed also had a background in architecture and was committed to demonstrating that dense family housing could be designed well. CHW was committed to aligning its mission of providing housing for lower income families with the goals of creating attractive, marketable and sustainable communities in which residents would take pride. Examples include:

- Buildings are clustered around an attractively landscaped courtyard with tot lots, sitting areas, laundry room and a community vegetable garden.
- Each unit has a private entrance and everyone "owns" some exterior space (i.e., small porch/patio at front and/or rear door for townhouses/garden units or a stairway and landing to a second floor unit).
- Units are sited so that there are "lots of eyes" on the common spaces and grounds.
- Parking is at the perimeter of the property, not at each unit entrance. While this is less convenient for the resident, it creates a more peaceful yet accessible shared courtyard space.
- There is a separate community building in the courtyard that houses the management office, computer/after school center, and a day care center.
- Units have good quality finishes and are of good size<sup>5</sup>.
- Site design was sensitive to features residents were likely to value:

<sup>5</sup> 2 bedroom = 850 square feet; 3 bedroom = 1,050 square feet; 4 bedroom = 1,210 square feet

- A large shade tree where adult residents could gather and “hang out” in a leisurely fashion after work was specifically kept at the perimeter of the property. This is a place that is more separate than the communal courtyard and more private than the street corner.
- The transitional units included several two-bedroom units with a large communal kitchen. It was envisioned that two households, typically each with a young mother and child, would achieve stability more easily in an environment where childcare, housekeeping and cooking could be shared.
- A ground level bathroom in the townhouse units was located off the kitchen as a place for residents to clean up after a day at work and before entering the rest of the apartment. It was anticipated that many of the residents would have manual, laborer jobs. This design decision did indeed appeal to the applicants.
- Kitchen/dining/living spaces were specifically designed in a more open fashion to better accommodate large family meals and gatherings.
- Stucco finish and cheerful exterior colors combined with a creative use of decorative tile stands in marked contrast to nearby apartment communities of dark brown siding and ill-kept exteriors.
- Gates around the parking areas enhance sense of security in a neighborhood that has had some anti-social behavior in the past.

In addition, management practices are such that there is little evidence of poorly maintained common areas (no abandoned cars, little inappropriate storage in exterior spaces, no graffiti) and the property has the obvious look and feel of a mixed income property with market units. Management reports that visitors frequently assume the property is either market-rate rentals or a condominium and are disappointed to learn that they are over income.

## **b. Tax Credit Rents are Way Below Conventional Market**

The rental market in Vista is composed primarily of multifamily complexes with one-, two- and some three-bedroom apartments. These complexes are often occupied by families and apartments are frequently overcrowded. There are few affordable housing developments in Vista.

The original vision for Cedar Road/Nettleton was for it to be farm workers housing, but creating an affordable housing development became possible only by using tax credits. Project-based Section 8 was no longer available. The goal was to have rents as low as possible (hence the 30 percent and 50 percent rent tiers) by securing as much soft debt and as little hard debt as possible. The low rent contributes to strong demand for the housing. The turnover rate averages 17 percent per year and they have such a long waiting list, they closed it. The waiting list currently has 60 two-bedroom, 53 three-bedroom, and 14 four-bedroom applicants.

Cedar Road includes ten units of transitional housing for homeless families funded through a grant from HUD’s Supportive Housing Program (SHP). These units are

available for up to two years to households making zero to 50 percent of Area Median Income (AMI). Transitional households pay 30 percent of their income for rent while working with case managers and other social service providers to rebuild their family and income stability. In a sense, there are three income tiers, albeit lower income tiers: transitional, very low-income (below 50 percent of median), and low-income renters (above 50 percent of median), rather than the more typical mix of very low, low/moderate and market incomes.

As *Table 5* demonstrates, Cedar Road’s rents are 34 percent to 64 percent below the conventional market.

*Table 5: February 2005 Rent Schedule at Cedar Road*

Unit Size	Cedar Road 30% AMI Rents	Cedar Road 50% AMI Rents	Market Comps: Conventional <sup>6</sup>
2 BR	\$424	\$735	\$1075 - 1150
3 BR	\$487	\$846	\$1350
4 BR	\$537	\$937	None

Note: The transitional housing residents (in the <30% of AMI units) pay 30 percent of their rent in income.

### **c. Convenient Location, Mixed Neighborhood, High Performing School, Good Job Market are All Important**

Cedar Road enjoys a desirable location in an area where competition, while plentiful, is less attractive and more expensive. Initially, CHW relied on informational flyers distributed to area employers as well as focused efforts notifying community organizations and leaders to attract initial prospects. Interest was strong and a lottery was held to select the first leaseholders. Today word-of-mouth and occasional advertising keeps the tax credit units leased and a more skilled site manager keeps the transitional units full.

The neighborhood’s diversity has also been a key to the property’s success. Cedar Road closely mirrors the neighborhood’s racial and ethnic mix. Cedar Road does not “stand out” in any stigmatizing way – except to say that it is far and away the most attractive multifamily housing in the immediate area.

Cedar Road was designed for working families and its location across the street from a popular elementary school has been another key leasing point. Vista boasts excellent, award winning public schools and in 2002 its voters approved a School Construction Bond to construct eight new schools and modernize several others.

<sup>6</sup> Telephone market comparability study conducted by John Stewart Company: July 2005

Easy access to major roadways less than a mile away makes commuting and shopping convenient. The Vista Community Development Association (VEDA) was formed in 1984 to spur economic development. It is a partnership of the City, the Chamber of Commerce and local business and industry. Its centerpiece is the 1200-acre Vista Business Park, which was built out in 15 rather than the projected 25 years. It is home to over 650 businesses and employs over 18,000.

## **Section 5: Maintaining High Occupancy Rates and Profitability**

### **a. The Right Property Management Team is Key**

Cedar Road is a particularly unique mixed-income property. Twenty-five percent of its apartments are transitional units for formerly homeless families. Cedar Road has struggled to find the right property management company and then the right site team to operate the property. Its first property manager had difficulty leasing and managing the transitional units. CHW's Executive Director observes, "We won't do this high a proportion of transitional units again. Our standard now is no more than 10 percent transitional units." There was gang activity (gone for some time now) that required active, coordinated work with the Sheriff's office. Vacancy rates reached 10 percent. The next (and current) property management company, while more aligned with CHW's mission, had frequent staff turnover in its first few years and also had difficulty keeping the transitional units occupied.

For the past year, Cedar Road has begun to see its vision more fully realized: units are full after a period in 2004 of evicting problem residents (6 percent vacancies in 2004; full by spring 2005 – drawing from a wait list of 127), the relationship with the transitional service partner is now cooperative and timely, staffing has been revised to change a security person to a maintenance technician (gates were installed around the parking lot to eliminate the need for staffed patrols which were largely ineffective, but residents had become accustomed to them). CHW is very complimentary about the new site team, which is also working well with CHW's part-time resident services coordinator who staffs the Learning Center two afternoons a week for approximately 28 children.

### **b. Limited Competition and High Cost of Homeownership Fuel Ongoing Demand**

Cedar Road is the newest rental complex in the neighborhood. It was developed on what was a very affordable, available site just 10 years ago in what was then described as a "difficult, weak neighborhood where we could get land." Cedar Road is significantly more attractive, updated and less costly than nearby conventional properties. It also offers larger units for families. While homeownership is a goal of many households (and actively encouraged by CHW), the rapidly rising cost of single-family homes (median cost of a house in Vista is now over \$365,000) makes renting longer or moving further away the most popular options of current residents.



### **c. Asset Management Guides the Way**

Asset management sets the goals – and the tone – for ongoing operations. CHW has 2.5 asset managers for 24 properties (approximately 1200 units). There are formal quarterly meetings with the property manager, including an annual budget meeting. Asset managers also participate in property inspections, often with the property manager and also with investors. There are also occasional team meetings and the current management company was described as being the best at understanding CHW’s mission and viewing CHW’s asset manager as a real team player.

CHW initially had a history of offering rents below the tax credit rents and maximizing rents was not a strategy. However, with the introduction of asset management a few years ago, properties like Cedar Road have been increasing their rents routinely. In turn, Cedar Road has seen its revenues meet or exceed the initial pro forma budgets.

### **d. Property and City In Sync on Value of Education**

CHW actively provides resident services at its properties as a strategy in moving the families in its properties beyond low-wage work. At Cedar Road there is a small Learning Center staffed by a part-time Resident Services Coordinator (who works for CHW) who focuses on educational achievement. The Learning Center is open to 1<sup>st</sup> to 12<sup>th</sup> graders of Cedar Road and Nettleton Apartments to come do their homework or activity sheets, read or play games on Mondays and Thursdays from 3:00 pm – 6:00 pm. When their homework is completed, students may use computers/educational software to play games and support their learning. 28 children participate, although not always at the same time, and most are in 1<sup>st</sup> to 6<sup>th</sup> grades. The site manager (also called site administrator) plans about 6 social events a year and runs movie nights.

The Resident Services Coordinator interacts with CHW’s asset manager, but reports to CHW’s Director of Resident Support Services. The RSC also collaborates with the site manager where there are any issues of mutual concern.

## **Section 6: Financing Sources and Costs**

### **a. Low Cost Funding Sources Keep Annual Debt Requirements Low**

Cedar Road secured sufficient sources of funding so that less than 25 percent of its operating revenues go to paying down the “hard debt” in the form of a first mortgage note. Low debt servicing is key to having sufficient operating resources when the mix of tax credit rents are set at 30 percent and 50 percent AMI.

The sources of permanent funding are summarized as follows:

*Table 6: Sources of Permanent Funds for Cedar Road*

Sources of Permanent Funds	Amount	Percentage of
----------------------------	--------	---------------

		<b>Total Sources</b>
HUD Supportive Housing Program Grant	\$400,000	8.4%
General Partner Contribution	\$100	0.0%
City of Vista	\$396,959	8.3%
County of San Diego HOME Funds	\$630,086	13.2%
BofA Federal Savings Bank – “hard debt”	\$640,704	13.5%
FHLB of Seattle - AHP	\$202,000	4.2%
Low Income Housing Tax Credits	\$2,490,812	52.3%
<b>Total Sources</b>	<b>\$4,760,661</b>	<b>99.9%</b>

#### **b. Development costs**

It cost \$119,016 per-unit to develop Cedar Road. This was considered somewhat high on a per unit basis, but unit sizes were higher than in a typical development (average of 2.75 bedrooms per unit) and the cost of amenities such as the courtyard, community building and laundry room were spread over a relatively small number of units.

*Table 7: Distribution of Project Costs for Cedar Road*

<b>Type of Cost</b>	<b>Amount</b>	<b>Percentage of Total Costs</b>	<b>Cost Per Unit</b>
Land	356,996	7.5%	\$8,925
Total Construction Costs	2,813,485	59.1%	\$70,337
Total Soft Costs	1,590,180	33.4%	\$39,754
<b>Total Project Costs</b>	<b>4,760,661</b>	<b>100.0%</b>	<b>\$ 119,016</b>

#### **c. Non-profit Routinely Funds Reserves and Collects Fees Contingent on Cash Flow**

A combination of progressive rent increases, manageable vacancy levels and modest hard debt requirements has resulted in sufficient funds for operations, replacement and operating reserves and cash flow sufficient to fund CHW’s partnership (or asset) management fee. CHW has achieved its goal to have a minimum of 6 months of operating reserves (the balance as of December 31, 2004 was \$167,244). It also conducted a capital needs assessment three years ago and has been funding the reserves at a rate recommended by the study. The balance at December 31, 2004 was \$91,462 although the requirement of the documents is only \$78,576. It routinely pays itself its partnership (or asset) management fee.

*Table 8: Change in Revenues, Rent Loss and Associated Marketing Expenses Over Time; Comparison of initial projections vs. actuals (in dollars)*

	<b>2000 projected</b>	<b>2000 actual</b>	<b>2003 projected</b>	<b>2003 actual</b>	<b>2004 projected</b>	<b>2004 actual</b>
Gross Rental						

	<b>2000 projected</b>	<b>2000 actual</b>	<b>2003 projected</b>	<b>2003 actual</b>	<b>2004 projected</b>	<b>2004 actual</b>
Revenues	233,366	251,936	244,024	296,972	247,684	313,521
- Vacancies	(11,669)	(24,078)	(12,202)	(13,069)	(12,385)	(18,216)
- Bad Debts	0	(3,116)	0	0	0	(11,457)
+ Other Income	4,500	20,989	4,500	19,106	4,500	12,383
= Effective Rental Income	226,197	245,731	236,322	303,009	239,799	296,231
- Legal		(1,595)		0		(1,373)
- Marketing	(513)	(702)	(554)	(361)	(568)	(1,074)
- Decorating		(512)		(1,763)		(4,079)
- Total Other Operating Expenses	(141,547)	(146,218)	(152,444)	(174,563)	(156,260)	(207,060)
- Replacement Reserve	(4,442)	(5,148)	(4,646)	(694)	(4,716)	(12,810)
- Operating Reserve	(6,663)	(13,671) <sup>7</sup>	(6,968)	(9,685)	(7,073)	(7,289)
= NOI	73,032	77,885	71,710	115,943	71,182	69,072
- Hard Debt	(60,324)	(58,426)	(60,324)	(56,583)	(60,324)	(55,923)
Cash Flow prior to contingent fees	12,708	19,459	11,386	59,360	10,858	13,149
- Partnership/ Asset Mgmt Fee	(12,708)	(14,038)	(11,386)	(15,792)	(10,858)	(16,423)
- Capital Improvements or R/R Expenses	0	0	0	(19,550)	0	0
= Cash flow for distribution	0	5,421	0	24,018	0	(3,274)

<sup>7</sup> Annual obligation is 6% of gross collections until balance reaches \$200,314 which is this calculation. Audit shows in 2000 \$90,532 was deposited into operating reserves and \$71,053 was withdrawn in 2001.